

# Implication of Regulatory Agencies on the Development of Capital Market in Nigeria: 2000 – 2014

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## Abstract

Capital market is a section of the financial market established to facilitate financial intermediation which is the hub of economic growth and development. This study examines the impact of regulatory agencies on the Nigerian capital market development from 2000 to 2014. The research design used was expo-facto design. It was found that while interest rate and capital market development are negatively correlated at an insignificant margin; the quantity of money in circulation and foreign exchange rate has positive relationship with the Nigerian capital market development. The study recommended that the monetary authorities should adopt money supply policies that conform to the level of economic activities in the country; pursue sound and responsible interest rate policies that are compatible with the capital market development; pursue flexible exchange rate policy that is largely influenced by the forces of demand and supply.

**Keywords:** Capital market development, interest rate, financial system, foreign exchange rate and money supply.

## 1. Introduction

Capital market is a section of the financial market established to facilitate financial intermediation which is the hub of economic growth and development. Financial intermediation is pivotal to a sustainable economic growth and development as it is the principal mechanism for balancing the deficit economic units with the surplus economic units. Suffice to the fact that individual income may not be sufficient to cater for consumption and investment needs of the populace, the importance of financial intermediation is highly inexhaustive in any economy.

At micro-level, studies have shown that financial intermediation stimulates the restructuring and liquidation of distressed firms, as well as eliminating the inefficiencies associated with the absence of inter-temporal smoothing as a result of incomplete market (Nwankwo, 2007). At the macro-level, the significance of financial intermediation cannot be over-emphasized at it facilitates the efficiency of the financial system (Gromb, 2010).

Financial intermediation involves the accumulation and channelling of investable funds from the surplus economic units whose marginal propensity to expend is discountable to the deficit economic units whose marginal propensity to invest is non-negotiable. Effective mobilisation of resources for productive investment is the base of both growing and grown economy.

Financial market is divided into money and capital market while the money market deals securities that have short life span in terms of maturity and redemption, the capital market is the market for the purchase and sale of medium and long-term securities. Adeusi, Sulaiman and Azeez (2013) opined that financial market is the subset of the financial market that provides an avenue for the efficient channelling of long-term funds are channelled. Yadirichukwu and Chigbu (2014) asserted that the capital market have received a considerable attention from contemporary finance and economic literature resulting from its role in the provision of long-term, non-debt financial capital which enables companies to avoid over-reliance on debt financing, thus improving corporate debt-to-equity ratio and also in the mobilization of resources for national growth.

Capital market aids the flow of long-term investable funds from the lenders to the borrowers and has over the years helped public and private institutions, enterprises and corporations to bridge liquidity and profitability gap arising from their ordinary and extra-ordinary activities. Through the capital market, investors have been able to raise new long-term funds and holders of securities who wish to dispose them can promptly do so.

According to Ndako (2010), capital market is viewed as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms and government are mobilized, harnessed and made available to various sectors of the economy.

Like every developing economy, the Nigerian government has played a dominant role in promoting capital market through financing and regulations. For the effectiveness and efficiency of the capital market, proper regulatory and supervisory functions are very imperative. Hence, the Nigerian capital market is subject to the regulatory and supervisory Securities and Exchange Commission and the Central Bank of Nigeria who are charged with the responsibility of maintaining surveillance, an act code of conduct, check abuses and regulate the activities of the operators in the market. Because of the susceptibility of investors to fraud by the dealers in the stock market and the overridden consequences on the economy, all activities in the capital market are well policed.

Thus, all activities in the capital market are aimed at achieving optimum economic growth and development. To trample the efficiency and effectiveness of the capital market is an economically herculean without an institution(s) specially designated for such purposes and consequently the capital market is being captained by the securities and exchange commission and the Central Bank of Nigeria in order to ensure a strict compliance with laid down standards both on a direct and indirect basis. It is in the realisation of this that consideration is given to the market development in Nigeria between 2000 and 2014.

The work will be able to answer the following empirical questions, does the quantity of money in circulation affect the growth and development of the Nigerian capital market? How does the interest rate affect the growth and development on the Nigerian capital market? Does exchange rate affect capital market growth and development?

## **2. Review of Related Literature**

### *2.1.1 Historical Development of the Nigerian Capital Market*

Nigerian capital market has a rich evolutionary background because of the economically herculean engagements prior its establishment. The Nigerian capital market was established in 1960 and became open for operation in 1961. However, the evolution of the capital market can be traced as far back as 1946 when the government floated a N600,000 (1.25% of government stock) as a part of the Nigerian ten years embarked on to help raise funds from the London Stock Exchange (Adeusi, Sulaiman and Azeez, 2013). Ezeoha, Ebele and Okereke (2009) asserted that in May 1959, the Central Bank of Nigeria (CBN) in pursuance of its role with respect to the development of the capital market floated the first Federation of Nigerian Development loan of N4million on behalf of the government. Due to non-existence of a formal securities market then, the Central Bank of Nigeria (CBN) had to ensure that the stock carried with them reasonable assurance of marketability by introducing a Central register for matching buyers and sellers of shares and suggesting prices at which the deals took place. Following the favourable report of the Barback Committee whose recommendations led to the registration of the "Lagos Stock Exchange" now Nigerian Stock Exchange in 1960, trading commenced formally on June 5, 1961 after the enactment of Stock Exchange Act of 1961. Some catalytic institutions which included Investment Company of Nigeria (ICON) Ltd, Nigeria Acceptance Limited (NAL) Merchant Bank and Nigeria Stock Brokers Ltd were established in 1959. The establishment of the above institutions gave use to the need for the orderly development of the capital market by regulating the time at which the issue were brought to the market (Ezeoha, Ebele & Okereke, 2009). This necessitated the setting up of the capital issues committee, an ad hoc body with no legal backing under the Central Bank of Nigeria (CBN) in 1962.

The market trading was very low due to lack of awareness of the mechanics of Stock Exchange transaction and poor communication. But the market experienced a significant growth with the implementation of the Nigerian Enterprises Promotion Decree of 1972 and 1977 (Adeusi et al, 2013).

Chijioke (2011) asserted that in 1972, the government promulgated the Capital Issues Commission (CIC) Act of 1973 to give legal backing and more power to the commission in place of the Capital Issue Committee so as to enhance the implementation of the Nigerian Enterprises Promotion Act.

### *2.1.2 Structure of the Nigerian Capital Market*

The structure of the capital market can be divided into two, namely; ownership structure and operational structure. The ownership of the market is divided into primary and secondary market.

The primary market is the new issue market. It is the market where new financial instruments are traded. According to Chijioke (2011), new issue market is the market where stocks are issued for the first time to the members of the public. Similarly, Nwankwo (2004) stated that the primary market is in effect the new issues market as it is concerned with the issue and sale of new securities. The primary market securities may be issued through the following ways: offer for subscription, offer for sale, right issue, introduction and private placement (Chijioke, 2011).

The secondary market is the market where existing securities are traded. This is a market where stocks are not being sold for the first time. It can be referred to as the market for second-hand stocks (Emekekwe, 1996). Secondary market is the market for trading in outstanding securities that is securities that have been traded, bought or sold are classified under the secondary market. The secondary market augments the supply of funds to the primary market as it is the market for the sale and buying of existing shares and stocks. The hub of activities in the secondary market is the stock exchange which provides a market in which holders of existing quoted shares wishing to sell such shares can make contact with individuals and corporate organisations who are interested in buying them through stock brokers and agents. Hence, the secondary market is dominated by the stock exchange which provides a floor for the trading.

Alile and Richard (1990) further pointed out that secondary market is what properly constitutes the stock exchange because it is the mechanism that gives liquidity to the securities listed on the exchange. In fact, if there were no secondary market, the capital market could have found it difficult to thrive.

### 2.1.3 Nigerian Security and Exchange Commission

Nigerian Security and Exchange Commission is the apex body that regulate the monitor the Nigerian capital market. The commission was establish under the Securities and Exchange Commission Act, 1979 (Nwankwo, 2013).

Prior to the security and exchange commission two bodies had in succession been responsible for the monitoring of capital market activities in Nigeria. The first was capital issues committee which operated between 1962 and 1972. It could not be seen as the superintendent of the market because its functions were more to advisory without the force of instruction even though its functions included the coordination of capital market activities. The second institution was the Capital Issues Commission (CIC) which came into being in 1973. It had full powers to determine the pricing, timing, and volume of security to be issued. The powers of capital issues committee did not cover the activities in stock exchange and government securities (Anyanwu, 1998).

According to Ogunike and Omole (1996), the enabling Act of the Securities and Exchange Commission specifies its overriding objectives as investors' protection and development while its functions were divided into two – regulatory and developmental functions.

The functions of the Securities and Exchange Commission are extensively spelt out in SEC Act No. 29 of 1983 and the Nigerian Enterprises Promotion Act of 1990 as amended. Section 6(9) – (10) of the act specifies the duties and functions of SEC which include the following:

- i. Determining the amount of price, time and when securities of companies are to be sold to the public whether through offer for sale or subscription
- ii. Registering all securities proposed to be offered for sale to or for subscription by the public
- iii. Maintaining surveillance over the securities market to ensure orderly, fair and equitable dealing in securities
- iv. Protecting the integrity of the security market against any arising from the practice of insider trading
- v. Acting as regulatory apex organisation for the Nigerian Capital Market including the Nigerian Stock Exchange and its branches to which it would be at liberty to delegate power
- vi. Creating the necessary atmosphere for the orderly growth and development of the capital market
- vii. Reviewing, approving and regulating merger, acquisition and all forms of business combination.

### 2.1.4 Capital Market as a Pre-requisite for Economic Development

The capital market is the fundamental to the growth and development of every economy worldwide. The corporate bodies and government often require large sums of money to pursue their objectives and the surplus units need to invest. It is therefore usually difficult for them to meet such funding requirements solely from internal sources, hence, they often look up to the capital market. This is because the capital market is the ideal source as it provided them the opportunity to have access to the required fund from large number of people, corporate bodies and institutions. This, the socio-economic function of the capital market is well established. It does not only encourage and mobilize savings but also efficiently allocate such saving to areas of need (Ekinhe, 1996).

Yadirichuckwu and Chigbu (2014) opined that the stock market has assumed a developmental role in global economies following the observable impact the market has exerted in corporate financing and economic activities. Thus, the capital market has been the focus of economic development policies and policy makers because of the perceived benefits it provides for the economy. The capital market also consists of several networks of individuals and organisations who work collaboratively to ensure the achievement of both social and economic objectives.

According to Yudirichuckwu and Chigbu (20214), the institutional framework through which the capital market in Nigeria perform its functions include; the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), stockbrokers, issuing houses and investors. Through their complementary roles, the objectives of establishing the Nigerian capital market is to mobilize savings from various economic units for economic growth and development, provide adequate liquidity to investors, widen the ownership base of assets as well as the creation of a buoyant private sector and provide alternative source of funds for government. Others are to encourage more efficient allocation of new investment through the price mechanism, encourage more efficient allocation of given amount of tangible wealth through changes in the composition and ownership of wealth, create a built-in efficiency in the operations and allocation in the financial system to ensure optimal utilization of resources, and promote rapid capital formation.

The capital market according to Ezeoha, Ebele and Okereke (2011) is fabricated up of markets and institutions which assist the issuance and secondary trading of long-term financial instruments. The researchers further argues that the capital market unlike the money market which functions basically to wage short-term funds provides funds to industries and governments to meet their long-term capital requirements such as funding of fixed investments.

In order to ensure that lenders are not subjected to undue risks, the borrowers of capital need to carry out capital market operations. In pursuance of this, the Nigerian government in an attempt to prevent malpractices,

entrenched discipline, avoid arbitrary trading and achieve the objectives of establishing the capital market installed the Securities and Exchange Commission as the apex institution saddled with the responsibility of monitoring, supervising and regulating all operations which are actually or constructively connected to the capital market. The regulatory bodies of the Nigerian Stock market consist of Securities and Exchange Commission, Nigerian Stock Exchange, Central Bank of Nigeria and the Federal Ministry of Finance (Nnanna, Eglanna and Odoko, 2004).

Nwankwo (2013) opined that in every business, there are rules of dos and don'ts, therefore, Nigerian capital market is regulated through self-regulation and statutory system.

## 2.2 Empirical Studies

Because of the economically and financially indispensable roles that the capital market plays in the development of nation's economies and its overridden social benefits, the capital market has received a wide array of empirical investigation, which some of them are reviewed below:

Yadirichukwu and Chigbu (2014) empirically scrutinised the impact of capital market on economic growth in Nigeria. The study adopted a time series research design relying extensively on secondary data covering 1985 – 2012 using regression analysis. Findings suggests that two exhibit positive while two exhibit inverse and statistically significant relationship with economic growth. Recommendations is that relevant regulatory agencies should focus on enhancing efficiency and transparency of market to improve investors' confidence. Therefore, the need for effective and favourable macroeconomic environment to facilitate economic growth and ensure that channels of capital market induced growth are built around effective systems; and those policy institutions are active in making systemic checks and appropriate policy innovations to ensure capital market led economic growth.

Adeusi, Sulaiman and Azeez (2013) took a hypothetical evaluation of the impact of capital market development on economic growth and development since 1986 – 2010. It employed Ordinary Least Square (OLS) and Johansen Co-integration techniques. The result of the study showed that capital market development has not impacted positively on Nigeria economic growth and development due to the relative small size of the market despite its development as a result of the liberalization policy. Thus, it recommends that policies that would encourage domestic as well as foreign investors to participate in the market should be formulated.

Nieuwerburgh, Buelens and Cuyvers (2005) investigated the long-term relationship between economic growth and financial market development substantially affects economic growth. They found strong evidence that stock market development leads to encourage economic growth in Belgium, especially between 1973 and 1993. They recommended that efforts should be made by the regulatory authorities to sustain the capital market growth.

Demetriades, Arestis and Luintel (2001) utilized time series data from five developed countries to examine the relationship between stock market and economic growth, controlling for other effect of the banking system and stock market volatility. Their result supports the view that, although banks and stock market may promote economic growth, the effects of bank is more. They suggested that the contribution of stock market to economic growth may have been exaggerated by studies that uses cross country regressions. They recommended that adequate caution must be taken by different countries in regulating the capital market and the banking system in order to avoid counter productivity.

Hamad and Sumit (1998) examined the relationship between stock market development and economic growth in 21 emerging markets over 21 years, using a dynamic panel method. Their results indicated a positive relationship between several indicators of stock market performance and economic growth both directly and indirectly by boosting private investment behaviour and it was recommended that the capital market operators should be decentralized.

Mishra, Mishra and Mishra (2010) examined the impact of capital market efficiency on economic growth in India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from 1991 to 2010. Findings show that there is a linkage between capital market efficiency and economic growth in India. Their recommendations was that the market should be effectively sub-divided to enhance efficiency and stimulate economic growth.

Adam and Sanni (2005) examined the role of stock market in Nigeria's economic growth using Granger-Causality test and OLS. The study discovered a one-way causality between GDP growth and market capitalization and a two-way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GDP growth and turnover ratios. The study recommended that government should encourage the development of the capital market since it has a positive relationship with economic growth.

Obamiro (2005) investigated the role of the Nigerian Stock market in the light of economic growth using co-integration test. The author reported a significant positive effect of stock market on economic growth. It was recommended that government should create more enabling environment so as to increase the efficiency of the



stock market and to attain higher economic growth.

Ewah, Esang and Bassey (2009) appraised the impact of the Nigerian capital market efficiency on the economic growth of Nigeria using time series from 1961 – 2004. They found that the capital market in Nigeria has potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds etc. it recommended that the government should create an enabling market environment to ease the entry of companies into the market in order to increase liquidity and bring about market capitalization.

Afees and Kazeem (2010) examined the causal linkage between stock market and economic growth in Nigeria between 1970 and 2004. The indicators of the stock market development used were market capitalization ratio, total value traded and turnover ratio while the growth rate of gross domestic product is used as proxy for economic growth, using Granger – Causality test, the findings showed a bidirectional causality between turnover and economic growth, a unidirectional relationship from market capitalization to economic growth and no causal linkage between total value traded. The Granger-Causality result suggested that capital market drive economic growth. The study recommended that the statutory market capitalization ratio should be raised to foster the capital market growth and the consequent increase in economic development.

Ted, Lazar and Paul (2005) examined the empirical association between stock market development and economic growth in India using correlation analysis. The authors found support for the relevance of stock market development to economic development during pre-liberation, they discovered a negative relationship between stock market development and economic development for the post-liberalisation period and recommended that capital market should be well-manned in order to increase its contribution to economic growth.

Afolabi (2015) investigated the impact of the Nigerian capital market on the Nigerian economy between 1992 and 2011. The methodology expo-facto design using multiple regression analysis. It was found that capital market has an insignificant impact on the economy within the period. It was recommended that policies and measures that would boost investors' confidence should be enshrined in the running of Nigerian capital market so that it could contribute significantly to the growth of Nigerian economy.

Nwaolisa and Ezu (2013) examined the impact of capital market on the growth of the Nigerian economy under a democratic rule using time series data. Multivariate regression method was used to analyse the data. The result showed that while total market capitalisation and all shares indexes exerted positive influence on the GDP growth rate, the total value of stock has a negative effect on the GDP growth rate, and none is significant. The study therefore recommended that government should devote concerted effort and sincerity of purpose in the capital market development.

Chinwuba and Amos (2011) examined the impact of the Nigerian capital market performance on the economic development in Nigeria, using OLS regression model. The result indicates the capital market impacted positively on the economic growth of Nigeria and recommended that capital market development should be encouraged through productive regulatory policies.

### *2.3 Theoretical Framework*

This research is based on modern portfolio theory by Henry Markowitz in 1952. It is an investment theory based on the idea that risk-averse investors can construct portfolio to optimize or maximize expected returns based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. The theory is based on the following assumptions:

- i. The return from an investment adequately summarises the outcome of the investment
- ii. Investors can visualise the probability distribution of the expected rate of return
- iii. Investors' risk estimate is proportional to the variance of return they perceive of a security or an investment
- iv. Investors bore their decisions on two criteria, expected returns and variance of returns
- v. All investors are risk-averse in that for every expected value of returns, they prefer minimum risk and for a given level of risk, they prefer maximum returns
- vi. Investors are deem rational as long as they will prefer greater returns to lesser ones given equal or smaller risk (Nwankwo, 2013).

## **3. Methodology**

### *3.1 Research Design*

The study is an ex-post facto research. The data were subjected to analysis using ordinary least square method and regression analysis. The time series data covered the period of 2000 – 2014.

### *3.2 Model Specification*

The model of this study is specified in a manner that expressed capital market development as a function of economic growth.

The econometric function is stated as:

$$CMD = f(QMIC + INR + FOREXR + \mu) \quad \dots \quad i$$

The explicit form of equation I is represented as:

$$CMD = \beta_0 + \beta_1 QMIC + \beta_2 INR + \beta_3 FOREXR + \mu \quad \dots \quad ii$$

Where:

CMD = Capital Market Development

QMIC = Quantity of Money in Circulation

INR = Interest Rate

FOREXR = Foreign Exchange Rate

$\mu$  = Stochastic Disturbance (Error term)

$\beta_0$  = Intercept of relationship in the model/constant

$\beta_1 - \beta_3$  = Coefficients of each of the independent variables.

By log linearizing, the model becomes;

$$\text{Log}(CMD)_t = \beta_0 + \beta_1 \log(QMIC) + \beta_2 \log(INR) + \beta_3 \log(FOREXR) + \mu \dots iii$$

Where:

log = Natural log

From equation iii, the model can be specified in a time series form as;

$$\text{Log}(CMD)_t = \beta_0 + \beta_1 \log(QMIC) + \beta_2 \log(INR) + \beta_3 \log(FOREXR) + \mu \dots iv$$

The following are a priori expectation of the coefficient of the model:  $\beta_1 > 0$ ,  $\beta_2 > 0$ ,  $\beta_3 > 0$ .

#### 4. Data Analysis and Findings

##### 4.1 Data Analysis

The data collected for this study were analysed using Ordinary Least Square Regression OLS technique. The data were analysed using Statistical Package for Social Science (SPSS) as presented below:

**Table 1: Using Linear Regression**

Model	Beta	Std. Error	Standard coefficients	T	Sig.
(Constant)	66354.969	48567.899	-	1.366	.199
<b>FOREXR</b>	357.050	14.357	.958	24.870	.000
<b>INR</b>	-5007.971	2460.139	-.081	-2.036	.067
<b>QMIC</b>	1.832	1.037	0.76	1.766	.105

a. Dependent Variable: Capital Market Capitalization

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.993 <sup>a</sup>	.986	.983	18284.76625	2.052

**Table 3: Using Semi-Log Regression**

Model	Beta	Std. Error	Standard coefficients	T	Sig.
(Constant)	-451872.91	204932.224	-	-2.205	.050
<b>FOREXR</b>	217806.889	10519.472	1.023	20.705	.000
<b>INR</b>	-164682.88	60843.631	-.136	-2.707	.020
<b>QMIC</b>	-11888.550	7749.036	-.086	-1.534	.153

a. Dependent Variable: Capital Market Capitalization

**Table 4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.990 <sup>a</sup>	.980	.975	21994.09771	1.818

**Table 5: Using Double-Log Regression**

Model	Beta	Std. Error	Standard coefficients	T	Sig.
(Constant)	10.450	5.582	-	1.872	.088
<b>FOREXR</b>	1.023	.287	.422	3.569	.004
<b>INR</b>	-4.261	1.657	-.309	-2.571	.026
<b>QMIC</b>	.807	.211	.515	3.823	.003

a. Dependent Variable: Capital Market Capitalization

**Table 6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.942 <sup>a</sup>	.888	.857	.59905	1.734

#### 4.2 Findings

From the tables 1, 2, 3, 4, 5 and 6 above, it is observed that using Linear regression method, foreign exchange rate have a significant positive relationship with capital market development considering the co-efficient of .958 (95.8%) at 10% (t-value of 24.870) level of significance while the quantity of money in circulation have insignificant positive impact on capital market development with a coefficient of .076 (7.6%) at 5% (t-value of 1.766) level of significance.

The interest rate takes an opposite direction as it has an insignificant negative relationship with the capital market development with a coefficient of determination of -8.1% (-.081) at 10% (t-value of -2.036) level of significance. This agrees with the study of Ajagbe (2015) who evaluated the effect of interest rate on capital market growth in Nigeria (1985 – 2009) where it was established that interest rate reduces all share price index. The  $R^2$  (0.8268824) explains the goodness fit of model, the precision and reliability of the model.

The model summary using the Linear Regression technique shows that the independent variables explain 98.6% variation in capital market development as indicated by  $R^2$  of 0.986 and confirmed by the Adjusted  $R^2$  of 0.983.

Similarly, using the semi log regression technique, the quantity of money in circulation and foreign exchange rate have positive relationship with capital market development as indicated by their regression coefficients of .422 (42.2%) and .515 (51.5%) both at 1% level of significance with t-values of 3.569 and 3.823 while the relationship between the former and capital market development is strong and significant, the latter have a weak and insignificant relationship with capital market development. However, the interest rate maintain a negative but insignificant relationship with the dependent variable with regression coefficient of -.309 (30.9%) at 10% (t-value of -2.571) level of significance and the relationship is negatively stronger than  $R^2$  of 0.888 using linear regression.

However, using the double-log regression technique, it indicate a strong positive relationship between foreign exchange and capital market development as indicated by the regression coefficient of 1.023 (102.3%) at 1% (t-value of 20.705) level of significance while the quantity of money in circulation and interest rate have an insignificantly negative relationship with capital market development as shown by their regression coefficients of -.136 (-13.6%) and -.086 (-8.6%) at 10% (t-value of -2.707 and -1.534) level of significance for both variables. The model summary also indicate that the independent variables explains 88.8% as shown and confirmed by the adjusted  $R^2$  of 0.857. A Durbin-Watson value of 1.734 indicate the existence of serial correlation between the independent and capital market development. Therefore, since there is an agreement between the value of Durbin-Watson using semi-log and Double-log regression technique, it is empirically justifiable to say that the independent variables and the capital market development are serially correlated. Thus, capital market development and quantity of money in circulation as well as interest rate are positively correlated.

However, interest rate and capital market development are negatively correlated. This agrees with the study of Nieuwerburgh, Buelens and Cuyvers (2005), where they found strong evidence that stock market development leads to economic growth in Belgium.

Thus, capital market development contributes positively to the economic growth in Nigeria which contradicts the study of Adeusi, Sulaiman and Azeez (2013) where they showed that capital market development has not impacted positively on Nigeria economic growth and development due to the relative small size of the market despite its development as a result of the liberalization policy. However, this study is indifferent with the work of Demetriades, Arestis and Luintel (2001) where their result supports the view that although banks and stock market may promote economic growth, the effect of bank is more. Thus, the work agreed with the findings of Ewah, Esang and Bassey (2009), and Afolabi (2015) where they found a strong positive relationship between capital market development and economic growth through sound regulatory agencies.

#### 5.0 Conclusion

Based on the empirical results, the study hereby concludes that capital market development and interest rate are inversely related. However, the study concludes that the quantity of money in circulation and foreign exchange rates are positively correlated. Therefore, effective foreign exchange rate and money supply policies promote capital market development. Similarly, an increase in interest rate leads to a decrease in capital market development and vice versa.

#### 6.0 Recommendations

- i. The monetary authorities should adopt money supply policies that conform to the level of economic activities in the country which would in turn allow optimum productivity in all sectors.
- ii. Regulatory agencies should pursue responsible interest rate policies that are compatible with capital market development.
- iii. Regulatory authorities should pursue flexible exchange rate that is largely influenced by the forces of invisible hands (demand and supply) rather than regulatory authorities in order to foster appreciation of

exchange rate which will increase and in turn promote domestic investment.

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